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OFFICE OF NATIONAL ESTIMATES

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SUBJECT: The Revision of the Sixth Five-Year Plan\*

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New Economic Problems

1. During the last three months, Soviet economic policy, so resolute a year ago, has been unclear and on occasion even contradictory. The period of review which officially began in December continues today, but if the leadership is to keep its promise to present the Sixth Five-Year Plan to the Supreme Soviet in the first half of 1957, final decisions must be taken soon.

2. The possible reasons for a reassessment of economic policy are numerous. First, performance in 1956 was disappointing in the production of key raw materials (chiefly iron and steel, coal, and cement) and in the completion of new plants and mines. Second, the difficulties in Eastern Europe have laid new demands upon Soviet resources. Third, changes in the international situation may have persuaded the Soviet leaders that announced demobilization plans cannot be fully implemented and that additions to the labor force will accordingly be reduced. Fourth, managerial desires for a relaxation in the tempo of industrial growth perhaps are becoming effective. Fifth, some political leaders may believe that for economic and political reasons, not only the managers but other groups as well must be propitiated with higher living standards and a lower, less demanding tempo.

The Search for Solutions

3. The earliest intimation of dissatisfaction with the Sixth Five-Year Plan occurs in the field of housing, where a new program for an increased effort was drawn up in late November but has not yet been put into effect. A divergence between Pravda and Izvestia in their treatment of the housing problem during December suggests the existence of high-level disagreements on this point. Next, beginning in December, Pravda began going to rather far-fetched lengths in its reiteration of heavy industry's preferential role, while Izvestia cites it only in editorials paraphrasing official decisions.

4. The budget and economic plan for 1957 were presented over a month late. In the interim came the December plenum, which issued a resolution containing an unprecedented confession of excessive strains due to over-ambitious planning. Production plans exceeded raw material supplies, it was admitted, and with too many new plants under construction simultaneously, too few were being actually completed and put into production. This was precisely the criticism made by several industrial

\* This Memo. has been discussed with analysts in ORR and OCI.

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administrators at the 20th Party Congress and explicitly rejected at that time by Saburov. Responding in classical Bolshevik fashion, he made it clear that the function of planners is to raise targets to the maximum in order to smoke out the "hidden reserves" which plant managers habitually try to maintain as a cushion. With the admission of overstrain, the firing of Saburov, and the order to planners to "refine" the Sixth Five-Year Plan, the validity of that Plan's targets was thrown into doubt.

5. It remains in doubt today. The lowered targets of the 1957 plan, submitted to the Supreme Soviet by Saburov's successors in early February, appeared for a time to indicate that the five-year plan had been junked. Taken in conjunction with performance in 1956, the modest 1957 plan would have required that seemingly impossible increases be obtained in 1958-60 if the original five-year goals were still to be met. All the speakers said only that the 1957 plan was a step towards fulfillment of the 20th Party Congress decisions. None specifically related it to the Sixth Five-Year Plan targets, and the major growth slogan of a year ago -- catching up with the West -- dropped out of sight.

6. Within ten days, however, the picture changed again. On 16 February another Central Committee plenum, apparently convened in haste, published a new decree on the basis of a report by Khrushchev. This decree outlines a complete overhauling of Soviet economic organization. The same decree, as well as the accompanying Pravda editorial, prominently reaffirms the need and possibility of catching up with the West. Both decree and editorial speak not a word about the 1957 plan, barely a week old, but neither do they restate the 1960 targets.

7. Khrushchev's proposal, which is to be worked out by the Party Presidium and the Council of Ministers, is to organize economic administration at the regional level. It appears that economic councils, embracing planners, economic administrators, Party representatives, and local government and trade union officials, will plan and operate the entire regional economy; no enterprises will be run from Moscow. The councils will be manned partly with local cadres and partly with Moscow bureaucrats who must now be flushed out of their fine apartments and driven from the capital. Coordination between regions and local conformity to central policy is to be handled by central planning organs, who must approve regional plans, and by the familiar control organs -- the bank, the Ministry of State Control, and above all the Party.

8. The February plenum is a continuation of the December one in that it carries further, although much faster and with a radical twist, the general policy of devolving operating authority downwards towards the production unit itself. But along with this consistency are discontinuities, even contradictions. In place of the sober tone, even the note of anxiety, sounded in December, the February plenum recalls the 20th Party Congress in its atmosphere of determined confidence. Nothing is said about overstrain. And whereas the December plenum ordered Pervukhin's committee to play a greater operational role in the economy, a policy decision which Pervukhin himself reaffirmed on 6 February, the decree of 16 February rebukes it for interference in these matters. Again, in December the powers of the ministries were to be broadened; in February the ministries themselves face dissolution.

9. Khrushchev's argument is that, contrary to the fears of December and the implication of the 1957 plan, existing resources are adequate to sustain continued high rates of growth. The difficulty, he says, is merely that Moscow bureaus are a poor instrument for distributing these resources; they tend to send them to the wrong places or at the wrong times. If regional authorities will handle this

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allocation within a framework of centrally-determined policy, apparent shortages will disappear because neighboring enterprises, which formerly could communicate only through their respective ministries in Moscow, will now share inventories, labor supplies, etc.

Prospects

10. This economic reasoning is sound, and it may be that the decisions and indecisions of the last three months reflect a unanimous effort to find new ways of fulfilling a long-term plan which, although it seemed wholly feasible a year ago, has come in practice to look over-ambitious. But the inconsistencies of the record suggest that two additional forces are at work. One of these may be called the managerial interest, which tends to resist the planners' requirements. The December plenum and the 1957 plan should perhaps be viewed as the victory of a whole class of plant managers, senior engineers, and ministerial officials who seek a reduction in tempo, a breathing space, a life which does not drive them into long hours of overtime and continuous petty illegalities in order to meet plans which stretch the economy to its utmost. In addition to personal desires, some may also feel that their workers, to whom they must pass on pressures imposed by plan targets, would be more productive if the strain were eased. Some may even share the sentiment expressed in Ehrenburg's The Thaw -- that the house has been built, and that it's time now for Russia to start living in it.

11. The other force is the more familiar political dynamic residing in the Party leadership, the growth fixation which focuses on the competition with capitalism. The February plenum appears to be its comeback. Personality estimating is risky, but Khrushchev clearly represents the element of dynamism, while Malenkov and Pervukhin are the most likely Presidium-level adherents of relaxation.

12. If this interpretation is correct, the present irresolution and inconsistency of Soviet economic policy reflect a perennial conflict which, although it is not likely to generate Presidium factions, is now at a higher level than before. At the moment, relaxation has won a round -- the necessity for reviewing the 1960 targets has been admitted, and a modest 1957 plan is the law of the land. But dynamism has launched a counterattack, also with the Central Committee's endorsement, which probably aims at substantial overfulfillments of the 1957 plan and a reaffirmation of the 1960 targets. It includes a typical Stalinist-Khrushchevian panacea -- total reorganization -- intended to instill a new activism which will override obstacles.

13. There is no way of predicting what the Sixth Five-Year Plan will look like when it is presented to the Supreme Soviet in the next few months. In its old version, it is inconsistent with the already-adopted annual plan. But the political considerations arguing against repudiation of the original targets are strong and may be compelling. The day of catching up with the West is already sufficiently distant; further postponements at the first turn of the race would seriously damage Soviet prestige both at home and abroad. In the wake of foreign policy failures, with worker unrest manifesting itself in isolated cases, with the national minorities becoming uneasy, with many students and intellectuals alienated and beginning to express their alienation, the leadership will be reluctant to repudiate the optimism of the 20th Party Congress.

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14. One special aspect of the problem faced by the Soviet leadership is the danger that a lowered 1957 plan, especially if succeeded by a lowered five-year plan, might have economic effects analogous to the political effects of attacking the cult of personality. Just as the downgrading of Stalin has damaged the myth of Party infallibility and encouraged independent political thought, so an explicit downward plan revision would impair the myth of economic infallibility, and encourage efforts from below to reduce the tempo still more. In fact, unless a major campaign for overfulfillments in 1957 is launched soon, industrial administrators will tend to dig in and the momentum of earlier years, the atmosphere of "stormy upsurge," will be difficult to recover.

15. Lastly, there is the danger that Khrushchev's cure of regional authority may be worse than the disease of bureaucratism at the center. The sin of "family-ness," of attachment to local interests, of mutual covering up among officials in the provinces as a shield against central pressures, is a hallmark of the Soviet system. Despite Khrushchev's probable awareness of this danger and the considerable array of weapons for countering it, the new system focussing on the region will almost certainly provide a more favorable environment for these resistance tendencies than did the old one. Stalin did not centralize the Soviet economy on a whim, but rather because he recognized the essential connection between strict centralism and rapid growth.

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